BEFORE THE ILLINOIS COMMERCE COMMISSION

Docket No. 01-0662

Rebuttal Testimony of Rhonda J. Johnson
On Behalf of Ameritech Illinois

Ameritech Illinois Exhibit 15.0

April 22, 2002

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REBUTTAL TESTIMONY OF RHONDA J. JOHNSON

ON BEHALF OF AMERITECH ILLINOIS

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. Please state your name and business address.

A. Rhonda J. Johnson, 225 West Randolph Street, Floor 27B, Chicago, Illinois 60606.

Q. By whom are you employed and in what capacity?

A. I am the Vice President-Regulatory Affairs for Illinois Bell Telephone Company ("Ameritech Illinois").

Q. What are your duties and responsibilities in that capacity?

A. I have primary responsibility for interacting with this Commission and its Staff on issues concerning Ameritech Illinois and the Illinois telecommunications industry in general. I am also responsible for overseeing all regulatory matters for Ameritech Illinois.

Q. How long have you served in that capacity?

A. I have served in my current capacity since September of 2001.

Q. What is your telecommunications experience?

A. I began my career with the Federal Reserve Bank of Chicago, and after a short time there, I joined AT&T and spent 13 years in a variety of positions focused on regulatory affairs. I started in the Finance organization at AT&T in 1984 with responsibilities related to

regulatory matters. From Finance, I transferred to the Law and Government Affairs organization in 1989 where my responsibilities primarily related to policy matters on access, competition and ultimately the Telecommunications Act of 1996. In 1997, I joined the AT&T local services organization and was responsible for overall contract implementation issues for AT&T's local services market entry pursuant to interconnection agreements with Ameritech. In 1998, I joined Ameritech as Director of Regulatory Policy for Wholesale Issues and worked on projects related to local competition, the FCC's UNE Remand decision, and 271 authorization. In January of 2000, I was appointed to the position of Vice President – Regulatory Affairs for Ameritech Wisconsin. In September of 2001, I was appointed to my present position of Vice President – Regulatory Affairs for Ameritech Illinois. I previously testified in Docket Nos. 98-0252/98-0335/00-0764 regarding a proposal to issue one-time credits to retail and wholesale customers in satisfaction of Ameritech Illinois' obligation to flow savings resulting from the SBC/Ameritech Merger through to customers.

Q. What is your educational background?

A. I hold a Bachelor of Science Degree in Finance from the University of Illinois.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the testimony of Staff and the CLECs on certain policy issues. Specifically, I will address the status of competition in Illinois, the appropriate scope of this proceeding, Ameritech Illinois' history of compliance with this Commission's orders, and UNE rate issues on a going forward

basis. My affidavit which was filed with the Commission in November of 2001 is also attached as Schedule RJJ-1.

II. OVERALL ASSESSMENT OF STAFF AND CLEC POSITIONS

Q. Before addressing these issues in detail, please provide Ameritech Illinois' overall assessment of the positions taken by the Commission Staff and the CLECs in this proceeding.

A. Checklist proceedings are inevitably complex and litigious. That is because the 14 checklist items cover a vast array of wholesale products and services which Ameritech Illinois is required to make available to CLECs. Many of these offerings are technically complicated themselves or involve complicated "backroom" systems and/or processes. Good faith disputes can arise over what the FCC requires be part of a specific checklist offering or part of a Section 271 application. In addition, the grant of Section 271 authority results in a significant change in the relative competitive positions of the ILEC and the CLECs. Therefore, it was reasonable to expect that the parties would raise a significant number of issues which, they would contend, had to be resolved prior to a positive recommendation by this Commission.

Unfortunately, the parties have made a difficult situation worse. Neither Staff nor the CLECS have limited themselves to the FCC's requirements. Instead, they apparently view this proceeding as an omnibus investigation into competition issues in Illinois and a referendum on Ameritech Illinois' compliance with statutory requirements and orders (both state and federal) which have nothing to do with checklist compliance. They have

raised disagreements over the appropriate interpretations of statutory and regulatory requirements to the status of "noncompliance." By raising issues and making proposals which are not related to Section 271, by not always making clear which of these are based on federal law and which are based on state law, and by not distinguishing between opinions on what should be required and what the FCC or this Commission actually requires, Staff and the CLECs have made this proceeding far more complex and confusing for the Commission than it needed to be. As I will explain in more detail below, Ameritech Illinois believes that the focus of this docket is and should be on whether the Company is meeting the FCC's Section 271(c) checklist requirements.

III. STATE OF COMPETITION

Q. Staff and certain of the CLECs have taken issue with Ameritech Illinois' view that there is substantial competition in Illinois for both business and residential customers. Please respond.

A. As I indicated in my affidavit, the CLECs are actively and successfully competing for business and residence customers in Illinois. Based on September, 2001 data, CLECs were providing telephone service to over 1.6 million customer lines in Ameritech Illinois' service territory. As discussed by Ms. Heritage, competition has continued to grow since then. Based on February, 2002 data, CLECs are serving 1.8 million lines (or 23% of the marketplace). Of those lines, 63% serve business customers and 37% serve residence customers. Attached to Ms. Heritage's rebuttal testimony is a chart showing the dramatic growth in CLEC lines, and the corresponding decline in Ameritech Illinois' lines, over

this period. This data is the best evidence of the fact that Ameritech Illinois has taken the necessary steps to open the Illinois marketplace to competition.

Staff and certain CLECs (notably AT&T and WorldCom) claim that the Illinois marketplace is not fully competitive and/or that the CLEC industry is "dead." As Ms. Heritage demonstrates, the facts do not bear out either contention. Neither Staff nor the CLECs apparently want to concede that the Illinois marketplace is open to competitors and that competitors are steadily gaining market share.

If there were any doubt on this score, WorldCom, Inc. has just announced that it intends to immediately launch a 32-state offering (including Illinois) which, in WorldCom's own words, "extends to Americans the freedoms and choices they should never have been without and ushers in a new era of integrated all distance communications." (See http://www.worldcom.com/about_the_company/press_releases/display.phtml?cr/20020415). Under this plan, dubbed "the Neighborhood" by WorldCom, customers will receive all local and local toll calling, all long distance calling and a suite of customer calling features (e.g., caller ID, call waiting, voicemail, three-way calling and speed dial), as well as "partner-reward benefits" comparable to frequent flyer miles, for a fixed monthly charge of $49.99 to $59.99, depending on the state. As WorldCom proudly proclaims, the Neighborhood is the "first and only nationwide service to free callers from the constraints of per minute rates, time of day restrictions and unnecessary boundaries between local and long-distance service." According to the Wall Street Journal, this

service is intended to be a "preemptive strike against the Regional Bells." Wall Street Journal, April 15, 2002, p. 35.

Without long distance service authority, Ameritech Illinois is seriously hampered in its ability to respond to "the Neighborhood," or comparable packaged offers from other CLECs. What the CLECs claim are necessary constraints on Ameritech Illinois because the marketplace is not "open," in fact is becoming a handicapping process through which the CLECs can obtain the "first mover" advantage in the marketplace. The issues raised in this proceeding must be evaluated in light of the level of competition which actually exists -- not what the CLECs claim is (or is not) going on.

IV. SCOPE OF PROCEEDING

Q. What is the proper scope of this proceeding?

A. As I indicated previously, the proper scope of this proceeding is Ameritech Illinois' compliance with the checklist, as compliance has been defined by the FCC in the numerous Section 271 applications which it has granted. As I understand it, the core issues are as follows:

- Whether Ameritech Illinois, in fact, offers the wholesale products and service required by the checklist;
- Whether Ameritech Illinois has a legally enforceable obligation to offer those products and services; and
- Whether Ameritech Illinois supplies those products and services in the quantities which CLECs may demand and at an acceptable level of quality.

The checklist items are set out in Section 271 and have been addressed in detail in connection with numerous Section 271 applications which have been reviewed by the FCC. With the FCC's grant of nine Section 271 applications covering eleven states (Texas, Kansas, Oklahoma, Arkansas, Missouri, and New York, Massachusetts, Connecticut, Pennsylvania, Rhode Island and Vermont), the specific framework is well established and has been consistently followed by the FCC. This framework permits state regulators to assess ILEC compliance and then consult with FCC regarding those requirements. As the FCC has often acknowledged, and as recently as last week in its Vermont 271 order, "the Commission may not, by rule or otherwise, limit or extend the terms used in the competitive checklist set forth in subsection (c)(2)(B)." Therefore, contrary to the suggestions of some of the parties to this proceeding, neither the FCC nor this Commission may add or subtract from the Section 271 competitive checklist.

The purpose of this proceeding is to develop a record which this Commission can use when asked by the FCC to consult on Ameritech Illinois' compliance with its checklist obligations. Therefore, unlike other proceedings where this Commission makes its own policy and legal decisions based on state law or a combination of state and federal law, the objective in this proceeding is to develop the information which the FCC requires.

Q. Does Staff agree that this is the proper scope of the proceeding?

A. No. Staff has an entirely different perspective. For example, Mr. Hoagg contends that the Commission should feel free to apply entirely different standards in assessing Ameritech Illinois' application than the FCC would:

> "The purpose of this proceeding is to determine if Ameritech Illinois meets the Commission's [i.e., the ICC's] requirement for its endorsement of an Ameritech Illinois Section 271 application. In Staff's view, that set of requirements can differ from the standards ultimately applied by the FCC in its Section 271 evaluation. For example, the FCC may not consider a specific Illinois statutory or regulatory requirement in its evaluation of Ameritech Illinois' application. It does, however, not follow that this Commission should not consider such obligations. Staff believes that the Commission should exercise its own judgment concerning what should be required for its endorsement of a Section 271 application." (Staff Ex. 1.0, pp. 22-23).

In fact, Mr. Hoagg goes so far as to say that previous FCC orders issued on other RBOCs' applications may not meet "this Commission's standards." (Staff Ex. 1.0, pp. 23-24).

Q. What impact has Staff's expansive view had on the issues raised in this proceeding?

A. The effect has been to significantly and unnecessarily increase the issues which Staff claims must be resolved before the Commission can make a positive finding on Ameritech Illinois' checklist compliance. Some of these issues are state law compliance issues. For example, Mr. Hoagg contends that Ameritech Illinois must demonstrate compliance with Illinois marketing opening requirements (i.e., Section 13-801). (Staff Ex. 1.0, pp. 24-25). However, Section 13-801 is much broader than Section 271 of the federal Act. For example, Ameritech Illinois is not required to provide CLECs with "new" combinations under federal law (e.g., it need not provide CLECs with the UNE-P for new customers or lines which are not yet in place for existing customers). It is

required to provide "new" combinations under Section 13-801. Under federal law, Ameritech Illinois' obligation to provide UNEs is subject to the FCC's "necessary" and "impair" tests. Whether a similar constraint applies under Section 13-801 is pending in Docket 01-0614.

Staff has also made proposals that are not required by either federal law or state law. Dr. Zolnierek ignores the clear Section 271 framework established by the FCC and bases his evaluation on criteria which have never been used by the FCC in any Section 271 case and, in many respects, are in conflict with Section 271 requirements. For example, Dr. Zolnierek asks that Ameritech Illinois be ordered to make an election under the FCC's ISP Compensation Order which the FCC's order does not require. (Staff Ex. 3.0, p. 166). Mr. Alexander discusses this issue in more detail. Staff witness Liu asks that Ameritech Illinois be ordered to provide DSL service directly to end users and, then, unbundle that service for CLECs. (Staff Ex. 10.0, pp. 28-33). This is not an FCC or a state requirement at this time. It is a national issue which is pending before the FCC in four related rulemakings and it will be decided there. Mr. Habeeb discusses this issue in more detail.

Q. Have the CLECs also taken a similar view on the issues?

A. Yes. The CLECs have taken a similarly expansive view of the scope of this proceeding. They also insist that compliance with state law is a Section 271 issue. (See, e.g., WorldCom Ex. 6.0, pp. 15-16). Beyond that, AT&T proposes that Ameritech Illinois be required to separate itself into separate wholesale and retail companies -- an obligation which does not exist under federal law, the Illinois PUA or any existing Commission

order. (AT&T Ex. 2.0). AT&T asks that Ameritech Illinois be required to fully unbundled its Project Pronto architecture -- a proposal which the Commission has already rejected in Docket 00-0393. (AT&T Ex. 5.0, pp. 19-27). Z-Tel asks the Commission to rule that Ameritech Illinois must provide it with "Privacy Manager," an AIN-based feature which the FCC has already ruled is not a UNE. (Z-Tel Ex. 1.0, pp. 16-17).

Some CLECs have taken the opportunity in this proceeding to raise relatively minor, CLEC-specific disputes that are pending between themselves and Ameritech Illinois. For example, XO raises a directory listing issue and RCN a network outage notification problem, neither of which are appropriate issues in this proceeding as Ms. Kniffen-Rusu and Mr. Deere explain. (McCabe; RCN Ex. 1.0, pp. 8-9). These are issues that are normally resolved on a business-to-business basis between Ameritech Illinois and the CLECs without regulatory intervention. They do not rise to the level of Section 271 compliance issues unless they reflect a systemic problem in Ameritech Illinois' systems or processes, such that multiple carriers are impacted and the full availability of the checklist item is called into question.

Q. Have Staff and the CLECS complicated this proceeding in other ways?

A. Yes. Staff and the CLECs have raised a significant number of issues in this proceeding which are already pending in other dockets and will be decided there. For example, several CLECs challenge Ameritech Illinois' position relative to the FCC's unbundled local switching "carve-out" for business customers with four or more lines in the top 50 MSAs. (Staff Ex. 3.0, p. 59; AT&T Ex. 5.0, pp. 41-42). This is being decided in Docket

01-0614 and is discussed in more detail in Mr. Alexander's testimony. Both Staff and CLECs complain about Ameritech Illinois' "Single Point of Interconnection" ("SPOI") policy. (Staff Ex. 3.0, pp. 53-57; AT&T Ex. 6.0, pp. 6-13). This is also being decided in Docket 01-0614 and is discussed in more detail in Mr. Deere's testimony. It is not productive to relitigate issues in this proceeding that are pending elsewhere.

Q. Has the FCC addressed the scope of the checklist review process?

A. Yes. The FCC has made clear that only compliance with federal requirements is relevant. The FCC does not consider unrelated state law issues in its review of Section 271 applications. Furthermore, the FCC has cautioned the parties to a Section 271 proceeding against raising new issues, even those related to federal requirements, that have not yet been addressed:

> "As we have stated in other Section 271 orders, new interpretative disputes concerning precise content of an incumbent LEC's obligations to its competitors, disputes that our rules have not yet addressed and that do not involve per se violations of the Act or our rules, are not appropriately dealt with in the context of a Section 271 proceeding."

Q. Mr. Hoagg suggests that the federal "public interest" standard would encompass compliance with state law. (Staff Ex. 1.0, p. 25). Is that correct?

A. No, not as I understand the FCC's policies. The FCC has made clear that the public interest as it applies in Section 271 application has two dimensions: one, whether there are state-specific market structure conditions that would preclude a finding that the marketplace is open; and two, whether there is a sufficient remedy plan in place to protect against "backsliding" by the Section 271 applicant. Neither of these considerations

involve compliance with state law. The FCC has also been clear that the public interest requirement of Section 271(d)(3)(C) is not a license to expand the scope of the competitive checklist or otherwise evade the limitations of Section 271(d)(4).

Q. Mr. Hoagg takes the position that the FCC's decisions in other Section 271 applications have "little to no precedential value" in this proceeding. (Staff Ex. 1.0, p. 27). Do you agree?

A. No. Since this Commission will be asked to consult with the FCC on whether Ameritech Illinois meets the FCC's checklist requirements, it is nonsensical to argue that prior FCC decisions are irrelevant. This is particularly true where, as here, the products and services which Ameritech Illinois offers to CLECS are essentially the same products and services which the SWBT companies make available to the CLECs operating in their states -- and those states have already received Section 271 approval. Mr. Hoagg's position is the policy equivalent of a Kansas CLEC insisting that this Commission evaluate its Illinois certificate application under Kansas standards.

Q. Is Ameritech Illinois suggesting that the Commission do less than a "rigorous," "comprehensive" and "thorough" analysis, as Staff implies? (Staff Ex. 1.0, p. 27).

A. Absolutely not. Ameritech Illinois fully anticipated -- and the FCC fully expects -- a rigorous, comprehensive and thorough analysis of its compliance with the checklist. To the extent that state law requirements are identical to federal requirements or implement federal requirements, then compliance is a relevant issue. Beyond that, it is not. The Company does not believe that this proceeding should address non-checklist issues (e.g.,

compliance with state laws or Commission orders which exceed federal requirements, proposals that have no basis in state or federal law, routine business disputes and so forth).

By this last statement, I do not intend to suggest that compliance with Illinois statutory requirements and Commission orders is not important. Ameritech Illinois takes its legal obligations in this state very seriously. However, this Commission has ample authority under the PUA to assess and require such compliance, and its ability to impose fines and penalties on the Company in the event of noncompliance was significantly increased in the recent amendments to the Public Utilities Act. However, this proceeding is not, and should not be turned into, an omnibus compliance investigation into matters unrelated to the issues on which the Commission must consult with the FCC. The Commission will have more than enough issues to resolve if the docket's scope is limited to checklist compliance, as defined by the FCC.

Therefore, in the Company's testimony, the witnesses will attempt, where appropriate, to make clear which Staff or CLEC issues are checklist compliance issues and which are not, as well as indicating situations where the issue is already pending in other docket. For example, Ameritech Illinois readily admits that the line loss notifier problem raised by Staff and several CLECs is significant and must be corrected. (Staff Ex. 11.0, pp. 4-23; AT&T Ex. 4.0, pp. 13-28; WorldCom Ex. 1.0; Z-Tel Ex. 1, pp. 5-10). Similarly, Ameritech Illinois has identified and resolved the line translation and routing problems which caused the misbilling of intraLATA toll calls to CLECs using the UNE-P.

(WorldCom Ex. 2.0, pp. 2-6). Ameritech Illinois facilitates ongoing processes or forums which allow CLECs to raise issues of concern beyond their routine account management interface. These include the CLEC Use Forum, the six-month performance measurement review and other system or process industry collaborations when appropriate. However, the Company believes that the vast majority of the issues, complaints and proposals raised by Staff and the CLECs in their Phase I testimony are not properly the subject of this proceeding.

Q. Mr. Hoagg suggests that the FCC's standard may be too lax, citing the Court of Appeals' remand of the Kansas/Oklahoma Section 271 application. (Staff Ex. 1.0, pp. 28-29). Is this a fair criticism?

A. No. To my knowledge, the FCC's decision on the Kansas/Oklahoma application is the only one which has resulted in a remand and it was remanded on very narrow grounds. None of the issues raised by the parties to this proceeding even remotely implicate the issue in that remand (i.e., the relative price levels of wholesale and retail services). Ameritech Illinois' unbundled UNE rates, including its rates for the UNE-P, are substantially lower than their retail counterparts in most all instances. In any event, this Commission addressed the wholesale/retail price relationship issue in the original TELRIC proceeding and concluded that no further action was required. (Order in Dockets 96-0486/96-0569, pp. 80-85).

V. COMPLIANCE WITH COMMISSION ORDERS

Q. Staff takes the position that Ameritech Illinois has, as a matter of practice, failed to comply with competitive requirements that stem from state law, federal law, FCC orders and ICC orders. (Staff Ex. 2.0, p. 2). Please comment on Staff's position.

A. As I indicated previously, Ameritech Illinois takes seriously its obligation to comply with applicable state and federal requirements. I would readily agree that there are, have been and will continue to be numerous issues on which Ameritech Illinois and Staff have taken opposing views. Where Ameritech Illinois believes the Commission has resolved an issue inappropriately, it has utilized its legal rights and sought judicial review. Pending such review, however, the Company complies with the terms of the Commission's orders.

The fact that there are, have been and will continue to be disputes between Ameritech Illinois and Staff hardly translates into a "prolonged history" of noncompliance, as Staff witness Mr. Fiepel contends. (Staff Ex. 2.0, p. 3). In most instances, the examples cited by Mr. Fiepel are either mischaracterized, inaccurate or reflect disagreements on complex issues which have yet to be resolved by the Commission. These are not instances of noncompliance as that term is commonly understood. Staff's attempt to "colorize" these disputes by attaching such a provocative label to them is inappropriate and does nothing to facilitate resolution of the issues in this proceeding.

Q. Would you provide an example of Staff's misuse of the term "noncompliance?"

A. Yes. Staff's first example of Ameritech Illinois' "noncompliance" with applicable legal requirements involves UNEs. (Staff Ex. 2.0, p. 4). Rather than actually supply any

examples, however, Mr. Fiepel simply cross-references to Dr. Zolnierek's testimony as follows:

> "Staff witness Dr. Zolnierek specifies a number of noncompliance issues related to Ameritech Illinois' UNE provisioning. He notes, 'Ameritech fails in general to meet cost, uniquity, usage flexibility, availability, and transparency criteria' and 'with respect to the provisions of new UNEs, Ameritech fails to meet cost, timeliness, quality, and transparency criteria for availability.' " (Staff Ex. 2.0, pp. 4-5).

If one refers to Dr. Zolnierek's testimony, however, his position is based on his own, unique framework for analyzing these issues -- a framework which has not been adopted by the FCC or any other state to my knowledge. Moreover, Ameritech Illinois disagrees with the conclusions Dr. Zolnierek reaches when he applies these standards to Ameritech Illinois' performance. The Company's response to Dr. Zolnierek is set out in detail in the rebuttal testimony of Mr. Alexander, Ms. Smith and Mr. Deere. Ameritech Illinois is at a loss to understand how it can have a "prolonged history" of noncompliance with respect to issues which are being raised for the first time in this proceeding and which this Commission has yet to address.

Q. What about Mr. Fiepel's other examples?

A. My response is much the same. These are generally disputed issues which are pending in other dockets and will be resolved there or they are now pending in this proceeding and will be resolved here. The fact that Staff sees these issues differently than the Company does not mean that Staff is right, or (if Staff's view is ultimately adopted by the Commission) that the Company had an obligation to comply with Staff's views before the Commission ruled. It is my understanding that only the Commission itself can resolve

contested issues and that it is Ameritech Illinois' obligation to comply with the Commission's orders once they are final -- not before.

Q. Mr. Fiepel also contends that the "prolonged history" of UNE rate proceedings has led to "noncompliance concerns." (Staff Ex. 2.0, p. 7). Please comment.

A. Mr. Fiepel has mischaracterized the status of Ameritech Illinois' UNE rates. The vast majority of Ameritech Illinois' wholesale products and services have TELRIC-compliant prices that were approved by the Commission in the original TELRIC proceeding. (Dockets 96-0486/0596). The Company agrees that there are a handful of services whose prices are the subject of ongoing proceedings (e.g., shared transport). The shared transport docket will be resolved shortly. Nonrecurring charges for certain products are currently set on an interim basis and will be the subject of further proceedings. However, the Company is fully compliant with the interim rates that have been ordered and will be compliant with whatever rates are established in final orders. The fact that a relative handful of the Company's UNE rates "passed to file" and have not been specifically investigated represents internal decisions by this Commission -- not the Company.

Staff attaches undue significance to the fact that it and the Company have clashed over its service cost studies. Disputed cost studies are, in my experience, regulatory "business as usual." As I understand it, this Commission has been resolving cost study disputes between Staff and/or other parties and Ameritech Illinois since Ameritech Illinois began using incremental cost studies to set rates in the late 1970s. The fact that Staff has disagreed with service cost model constructs or input assumptions in a contested

proceeding (even if Staff ultimately prevailed) does not mean that Ameritech Illinois was somehow "not in compliance" with its legal obligations.

Q. Mr. Fiepel summarizes the recent history of Ameritech Illinois' implementation of Section 13-801 of the Act. (Staff Ex. 2.0, p. 11). Is it accurate?

A. The general impression which Mr. Fiepel apparently intended to convey -- i.e., that Ameritech Illinois dragged its feet when required to implement Section 13-801 -- is inaccurate. First, as he notes, most of the obligations which Section 13-801 imposes on the Company preexisted the state law amendments and were already tariffed. However, conscious of its obligations under the new law, Ameritech Illinois filed proposed tariff amendments on July 2, 2001, the first business day following the effectiveness of Section 13-801. In order to allow CLECs the opportunity to take immediate advantage of new offerings contained in the tariff, including new unbundled network element ("UNE") combinations, the Company advised the Commission that it would be willing to put the tariff into effect on less than 15 days notice, during the pendency of a tariff investigation. As the Company pointed out, this procedure would not prejudice any party, as the tariff amendments did not increase rates, nor did they restrict the availability of any services, features or UNEs that were available prior to the amendments.

At the request of the Commission Staff, the Company withdrew and refiled the amended tariff sheets on two occasions in order to extend the effective date of those tariff sheets and provide Staff with more time to review the tariff amendments. After the Company withdrew and refiled the tariff amendments for the second time, on September 13, 2001,

under Advice No. 7555, the Commission entered an order suspending the effectiveness of the tariff sheets and initiated an investigation.

On September 10, 2001, the Company filed a petition requesting permission to place into effect on less than 45 days notice, an Interim Compliance Tariff, the purpose of which was to enable Ameritech Illinois to immediately begin accepting and processing orders for the new combinations specifically identified in Section 13-801. The Commission entered an order on September 18, 2001, granting the petition for special permission and the tariff became effective. This is not the conduct of a company trying to delay implementation of Section 13-801.

Q. Several of the CLECs point to shared transport and the UNE-P as examples of Ameritech Illinois' failure to comply with Commission orders. (AT&T Ex. 2.0, pp. 11-13; WorldCom Ex. 6.0, pp. 8-13). Please comment.

A. I agree that the issues surrounding ULS/shared transport (which are components of the UNE-P) were extremely contentious for several years following the Commission's order in the TELRIC docket. I do not agree, however, that Ameritech Illinois ever violated a Commission order in connection with this product. The Company objected strongly to the conclusions in the Commission's first order in the TELRIC compliance proceeding to which WorldCom cites as unsupported by the facts (pp. 12-13).

In any event, these disputes over ULS/shared transport are not relevant to this proceeding. Ameritech Illinois filed a permanent shared transport tariff in 2000, pursuant to Condition 28 of the SBC/Ameritech Merger Order. As Ms. Heritage's analyses demonstrate, CLECs have a substantial number of UNE-P lines in service today in Illinois and their numbers are growing rapidly. The remaining issues associated with UNE-P pricing will be resolved shortly in the ULS/shared transport docket (Docket 00-0700) and the TELRIC compliance docket (Docket 98-0396). It does not advance the Commission's deliberations on the issues which must be resolved today relative to checklist compliance to continually revisit past disputes which no longer impact the marketplace.

VI. STRUCTURAL SEPARATION

Q. AT&T witness Mr. Gillan recommends that the Commission require the structural separation of Ameritech Illinois into wholesale and retail companies. (AT&T Ex. 2.0, pp. 23-37). Please summarize his proposal.

A. AT&T's proposal is another iteration of an enforced divestiture plan that has been around since at least 1998. Under this type of restructure, the ILEC spins off its retail operations (with no customers) to a separate company which is partially owned by the ILEC and partially owned by the public. The ILEC continues to own 100% of the wholesale company. The retail company would then have to interface with the wholesale company and compete for customers on the same basis as other CLECs. Over time, existing customers would be forced to choose a new retail provider because the wholesale company would not be permitted to initiate service to new accounts, transfer service to a different location or introduce new services.

Q. Does the FCC require structural separation as a condition for Section 271 approval?

A. No.

Q. Has the FCC ever considered structural separation?

A. Yes. In 1998, LCI International Telecom Corp. ("LCI") filed a proposal with the FCC that would afford ILECs which voluntarily elected to implement this kind of structural separation a rebuttable presumption that they complied with Section 271. The FCC solicited comments from the industry. Not a single RBOC embraced the LCI proposal. Based on this overwhelming "thumbs down" from the industry, the FCC dismissed the LCI petition and terminated the proceeding. In the matter of Petition of LCI International Telecom Corp. for Declaratory Ruling, CC Docket No. 98-5, adopted July 7, 1999, released July 9, 1999.

Q. Has this Commission considered structural separation?

A. Yes. At about the same time that LCI filed its petition with the FCC, LCI also filed a similar petition with this Commission. However, while its FCC petition proposed that structural separation be an option for carriers, in Illinois LCI asked that it be imposed on Ameritech Illinois whether Ameritech Illinois consented or not.

In response to this petition, the Commission initiated Docket 98 NOI-1 to consider the proposal. LCI, Ameritech Illinois, Staff and numerous CLECs (including AT&T) filed extensive comments and reply comments and oral presentations were made to the

Commission. Ameritech Illinois opposed LCI's proposal on the grounds that it would be enormously complex to implement, that it would impose significant inefficiencies on the Company, that it would degrade the quality of both retail and wholesale services, that it would be confusing to customers, that wholesale customers would see higher rates as a result of the restructure and that the Commission did not have the requisite legal authority under the PUA to order such a restructure anyway. As Mr. Gillan concedes, Staff agreed with Ameritech Illinois' legal assessment, based on Staff's own extensive analysis. (AT&T Ex. 2.0, p. 27, n. 25). In response to Staff's report, the Commission took no further action on the LCI petition.

Q. Has Ameritech Illinois' views on structural separation change in the interim?

A. No. Ameritech Illinois continues to believe that structural separation represents bad public policy and that the Commission does not have the authority to order such a reorganization under the PUA. This legal issue will be addressed in more detail in the Company's Initial Brief.

Further, I would take exception to Mr. Gillan's representation that SBC somehow conceded in the SBC/Ameritech merger docket that costs cannot be allocated between wholesale and retail services. (AT&T Ex. 2.0, pp. 27-28). The testimony of Mr. Kahn, on which Mr. Gillan bases his statement, has nothing to do with allocating costs between wholesale and retail services. Ameritech Illinois routinely develops service costs for its wholesale services (TELRIC) and retail services (LRSIC) and the Commission determines whether those costs are appropriate in contested proceedings. This is the only

"allocation" which is performed today between wholesale and retail services and it is the only "allocation" which is required. Although Section 13-507 requires Ameritech Illinois to apportion costs between "competitive" and "noncompetitive" services, the Commission established a methodology for doing so back in Ameritech Illinois' 1989 rate case (Docket 89-0033 on Remand) and subsequently codified it in its rules as the "Aggregate Revenue Test." (83 Ill. Admin. Code § 791.200). No party to this proceeding has contested the adequacy of Ameritech Illinois' Aggregate Revenue Test analyses which are routinely filed with the Commission.

Mr. Gillan suggests that Section 13-801's reference to "competitive" and "noncompetitive" services somehow encompasses structural separation. This is incorrect. (AT&T Ex. 2.0, p. 29). Wholesale and retail services do not line up with "competitive" and "noncompetitive" services. Although Ameritech Illinois' wholesale services are generally classified as noncompetitive today, so are most of Ameritech Illinois' retail residential services. Even if they did line up as Mr. Gillan suggests, there is no evidence in this record that the Aggregate Revenue Test has not accomplished its stated objectives.

VII. PRICING POLICY ISSUES

Q. Staff and certain of the CLECs have raised numerous issues about the approval status of certain of Ameritech Illinois' wholesale rates (e.g., Staff Ex. 2.0, p. 7; Staff Ex. 3.0, pp. 70-72; Staff Ex. 6.0, pp. 14-20; AT&T Ex. 3.0, pp. 10-18). Please comment.

A. I agree that permanent rates have not been established for all of Ameritech Illinois' wholesale offerings. However, the magnitude of the problem is much smaller than Staff and the CLECs suggest. Virtually all of Ameritech Illinois' core UNE offerings were addressed in the original TELRIC proceeding (Docket 96-0486/0569). This category includes most of the charges for all major UNEs: unbundled local loops; unbundled local switching; unbundled tandem switching; unbundled directory assistance; unbundled operator services; unbundled access to the SS7 network; unbundled access to the 800 data base; unbundled access to the LIDB data base; unbundled transport, from DS-1 to OC-48 levels; and cross-connection service.

There is a second category of prices which are currently being investigated by the Commission. This category includes recurring charges for shared transport (Docket 00-0700); nonrecurring charges for new UNE-Ps and UNE-P migrations, new EELs and special access to EEL migrations and private line to EEL migrations (Docket 98-0396); and the high frequency portion of the loop ("HFPL"), i.e., line sharing (Docket 00-0393). It is Ameritech Illinois' hope and expectation that permanent rates for all of the services will be established prior to the conclusion of this Section 271 proceeding. However, interim rates have been or are being established in each of these other proceedings

pending development of permanent rates and most of these interim rates are subject to true-up. Ameritech Illinois also currently has in effect the collocation rates which the Commission ordered in Docket 99-0615. The Company lost its appeal of those rates in January 2002, so those rates are now permanent. Although the Commission ordered the Company to file revised collocation cost studies, it has taken no action relative to those studies. A detailed schedule showing the status of these rates is attached to Mr. Alexander's rebuttal testimony.

There is a third category of UNE rates that are contained in tariffs, but have not been investigated by the Commission. This category is very small, and includes only subloop unbundling, dark fiber and access to the customer name database ("CNAM"). These are UNEs which the FCC identified in the UNE Remand Order, which lagged significantly behind the FCC's original UNE determinations. In response to Staff's suggestion, Mr. Alexander has prepared a "zone of reasonableness" test to demonstrate that the rate levels of these offerings are reasonable and can be accepted by the Commission for purposes of this proceeding. Moreover, neither subloops nor dark fiber are the subject of much CLEC demand at this time.

Q. Is it necessary for Ameritech Illinois to have permanent rates for each and every UNE rate prior to filing its Section 271 application with the FCC?

A. No. As Ms. Smith explains, the FCC accepts interim rates in the context of Section 271 applications. Moreover, other SBC companies have obtained checklist approval without state commission review of each and every rate. Therefore, Staff's and the CLECs'

concerns over this issue are overstated. As one of the states with some of the lowest UNE rates in the country, UNE pricing should not be a significant issue in Illinois.

Q. Staff witness Mr. Hoagg takes the position that all wholesale offerings must be tariffed. (Staff Ex. 1.0, pp. 32-41). Do you agree?

A. No. Although this is a legal issue which will be addressed in Ameritech Illinois' briefs, I will discuss it from a policy perspective. As I stated previously, this proceeding is logically governed by the FCC's policies, since the FCC makes the determination whether Ameritech Illinois has met its checklist obligations. Moreover, Section 271 requires a Track A application to be based on approved interconnection agreements. A state tariff is not a Section 271 requirement. As a result, the FCC does not require wholesale offerings to be tariffed. Accordingly, the practice in many SBC states is not to tariff UNEs at all, but to offer them only through interconnection agreements (e.g., Texas, Missouri, Arkansas, Kansas and Oklahoma). These states have all received FCC approval for their Section 271 applications.

Q. Mr. Hoagg speculates that the FCC may have adopted this policy out of necessity, because it must review so many state applications. (Staff Ex. 1.0, p. 36). Is that consistent with your understanding?

A. No. It is my understanding that the FCC expects that the business relationships between ILECs and CLECs (including the pricing of wholesale offerings) will be governed by interconnection agreements approved by the state commissions according to the terms of

Sections 251 and 252 of the 1996 Act. That is the procompetitive, deregulatory model established by TA96.

Q. Mr. Hoagg suggests that tariffs are necessary because the Commission has "relatively little control over the nature and content of provisions in interconnection agreements." (Staff Ex. 1.0, pp. 34-35). Do you agree?

A. No. All interconnection agreements are presented to the Commission for its approval. Certainly, if the Commission found the pricing provisions in a particular agreement to be improper for some reason, I presume that it would take the position that the agreement was contrary to the "public interest" as contemplated in Section 252(e)(2).

More importantly, however, I believe that Staff has lost sight of the fact that TA96 contemplates a negotiation process between ILECs and CLECs through which they reach a mutually satisfactory arrangement. If the ILEC and the CLEC are satisfied with the pricing arrangements in the interconnection agreement, then there is no public policy reason for the Commission to intervene. If the CLEC is not satisfied with the prices (or any other terms or conditions), then TA96 provides for an arbitration process, where the Commission resolves disputes on an issue-by-issue basis. It appears from Mr. Hoagg's testimony that Staff's objective is to maintain Commission "control" over every rate, term and condition that governs the relationship between Ameritech Illinois and the CLECs. (Staff Ex. 1.0, p. 35). This is not the role which TA96 contemplates for state commissions. In fact, even from a state policy perspective, I would have expected the Commission to encourage Ameritech Illinois and the CLECs to work out their differences

on a business-to-business basis, not insist on regulatory control over and intervention in every issue.

Q. Are tariffs necessary to provide a "baseline" from which carriers can negotiate, as Mr. Hoagg suggests? (Staff Ex. 1.0, pp. 37-38).

A. No. As I indicated previously, many states handle prices for UNEs without the use of tariffs at all, and the process works perfectly well.

Q. Are there many rates which are offered to CLECs in interconnection agreements which are not tariffed?

A. No. I am only aware of a few offerings which are currently available only under interconnection agreements (e.g., unbundled loops for DS-3s and OCNs). This hardly presents the urgent tariffing issue which Mr. Hoagg implies.

There are also several offerings for which Ameritech Illinois may negotiates different rates in its ICAs than currently exist in its tariffs (e.g., collocation, reciprocal compensation, dark fiber and HFPL). Other Staff witnesses complain that even this practice is inappropriate. (Staff Ex. 5.0, pp. 10-11; Staff Ex. 3.0, pp. 164-70). However, under Mr. Hoagg's standard, there is nothing wrong with this practice: in those instances, a "baseline" tariff is in place; the tariff remains available to the CLEC in lieu of the ICA provisions; and, if the CLEC accepts different rates, that decision is the CLEC's to make.

Q. Would Ameritech Illinois agree to tariff the offerings which are currently available only in interconnection agreements at some point?

A. Yes. I understand that this Commission prefers that all wholesale offerings be available under tariffs as well as in interconnection agreements. I would agree to include the untariffed offerings in Ameritech Illinois' wholesale tariffs the next time that these tariffs are updated on an across-the-board basis. The only point I am making here is that tariffs are not required for Section 271 purposes and that tariffing these offerings is not, and should not be made, a Section 271 prerequisite.

Q. Staff witness Mr. Koch expresses concern that Ameritech Illinois' UNE rates may change in the future. (Staff Ex. 6.0., p. 41). Is this an issue for this proceeding?

A. No. As discussed in more detail by Ms. Smith, the FCC does not require that a Section 271 applicant's rates be frozen as a condition of grant of long distance authority.

Q. Mr. Koch suggests that Ameritech Illinois should be required to obtain approval of any cost model changes prior to the filing of updated or new UNE rates. (Staff Ex. 6.0, p. 43). Is this a reasonable proposal?

A. No. The effect of Mr. Koch's proposal would be to significantly expand the time required to effect changes in the Company's UNE rates or to file tariffs for new UNEs. As Ms. Smith explains, Ameritech Illinois' cost models are updated on a continuing basis, as the Company develops new information or better modeling techniques or in response to the needs of regulators. It makes little sense to occupy Commission, Company and CLEC resources approving service cost models in the abstract. This

requirement could result in long, contentious proceedings over models that turn out not to be used to any significant degree in support of UNE pricing initiatives. For example, the new service cost models which Ameritech Illinois used to support its UNE merger compliance filings (about which Staff and the CLECs complain) have since been superceded by even newer models. This Commission has traditionally addressed service cost model issues in rate proceedings and that is the most efficient approach.

In fact, Staff's proposal is inconsistent with its previous policies. Ameritech Illinois has been advised by Staff on numerous occasions that they prefer to review cost studies after the filing of an actual tariff that relies on those studies. Although the Company has been frustrated by this approach in some instances, I recognize that there are resource issues involved here. I also understand that it can be difficult to fully assess a cost model without having a concrete rate proposal associated with it which demonstrates the impact of any changes in the construct of the model or its inputs on the rates themselves.

Mr. Koch's proposal to require pre-approval of cost models by the Commission in a litigated proceeding would represent the worst of all worlds. Under this approach, Ameritech Illinois would essentially have to litigate two dockets to change a UNE rate or introduce a new UNE: one proceeding to approve any new models or model changes and a second proceeding to approve the new rate or rate change. Potentially, each proceeding could take 11 months, for a total of 22 months. In fact, the model investigation proceeding would not be subject to a "clock" at all. This is not a reasonable process.

Q. AT&T witness Mr. Henson contends that Ameritech Illinois has recently embarked on an aggressive campaign to increase its UNE rates, suggesting that the SBC/Ameritech merger is responsible. (AT&T Ex. 3.0, pp. 18-22). Please comment.

A. Ameritech Illinois has been concerned that the UNE rates established in the original TELRIC order were unreasonably low since the date of that order. Contrary to Mr. Henson's view, the purpose of UNE rate review is not just to produce new rates that are "beneficial to the CLECs." (AT&T Ex. 3.0, p. 21). The purpose is to determine Ameritech Illinois' costs of providing service, so that the resulting UNE rates are reasonable and fair to both Ameritech Illinois and the CLECs.

Q. Mr. Koch suggests that Ameritech Illinois be required to relinquish its rehearing and appeal rights in the TELRIC compliance docket (Docket 98-0396), the HFPL docket (Docket 00-0393), the shared transport docket (Docket 00-0700) and the Section 13-801 compliance docket (Docket 01-0614). (Staff Ex. 6.0, p. 44). Is this a reasonable proposal?

A. No. The FCC does not require Section 271 applicants to relinquish their legal rights as a condition of long distance authority. Furthermore, Mr. Koch's perceived need for "continuity" hardly suffices as a grounds for closing off any legal review of the Commission's decisions in these important proceedings. I understand that the Commission endeavors to reach decisions in contested proceedings that are balanced, that are based on the record evidence and that are compliant with applicable law. However, the Commission is not infallible. If the Commission makes a mistake, then it is important that the mistake be corrected. Furthermore, the purpose of this proceeding is to assess

Ameritech Illinois' compliance with federal law. It is entirely inappropriate for Staff to ask that the Commission's decisions under state law be insulated from judicial review as a condition of a positive Section 271 recommendation.

Q. Mr. Koch recommends that the Commission require Ameritech Illinois to agree to an absolute cap on its UNE rates as a condition of this proceeding. (Staff Ex. 6.0, p. 43). Please comment.

A. This proposal should not be adopted. It raises legal issues which will be addressed in Ameritech Illinois' Brief in this proceeding. However, it is also ill advised from a policy perspective. Mr. Koch is asking that the CLECs be completely insulated against cost and rate updates in perpetuity. This is patently unreasonable. Most of Ameritech Illinois' UNE rates are based on 1996 costs and were developed before Ameritech Illinois had any meaningful experience complying with TA96. In addition, the cost models and input assumptions which were used and/or approved in the TELRIC proceeding are many years out-of-date and need to be revisited. It goes without saying that any revised rates would only increase if the Commission were satisfied that they more accurately reflect the Company's costs. However, it would be contrary to sound public policy and the cost-based requirements of TA96 to arbitrarily preclude the Company from filing, and the Commission from considering, adjustments to these rates.

VIII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.